

## Weekly Commentary – August 16, 2010

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
August 16	Empire Manufacturing	August 10	10.00	5.08
August 17	Housing Starts	July 10	561K	549K
August 17	Building Permits	July 10	575K	586K
August 17	PPI	July 10	+0.2%	-0.5%
August 17	PPI ex. food & energy	July 10	+0.1%	+0.1%
August 17	Industrial Production	July 10	+0.5%	+0.1%
August 17	Capacity Utilization	July 10	74.5%	74.1%
August 19	Leading Indicators	July 10	+0.1%	-0.2%
August 19	Philadelphia Fed	August 10	7.5	5.1
<b>Canada</b>				
August 17	Int'l Securities Transactions	June 10	\$10.0B	\$23.2B
August 17	Manufacturing Sales	June 10	+0.5%	+0.4%
August 19	Leading Indicators	July 10	+0.9%	+1.0%
August 19	Wholesale Sales	June 10	+0.1%	-0.1%
August 20	CPI	July 10	n/a	-0.1%

### Key Earnings:

August 16 – China Mobile, China Southern Airlines, Lowe's, Sears Canada, Six Flags, Urban Outfitters

August 17 – Abercrombie & Fitch, Home Depot, Jamba Juice, La-Z-Boy, Magellan Aerospace, Saks, TJX Companies, Wal-Mart

August 18 – Applied Materials, BJ's Wholesale Club, Deere & Co., Limited Brands, Target, Westfield Group, Woodside Petroleum

August 19 – Aeropostale, CNOOC, Dell, Foot Locker, Gap, Hewlett-Packard, Intuit, Sears Holdings, Staples, Williams-Sonoma

August 20 – China Construction Bank, J.M. Smucker

Source: CIBC World Markets, Bloomberg

### Market Focus

#### Can't buy confidence

This past week, the Federal Open Market Committee decided to keep its closely watched federal funds rate within a target range of 0% to 0.25%. Along with lower rates, the Federal Reserve will continue to buy Treasuries and mortgage-backed securities in order to keep supporting the U.S. credit system. Buying these securities ultimately has spurred residential and corporate loan rates to drop significantly. The 30-year mortgage rate in the U.S. is at an all-time low at 4.44%. This pledge to keep rates low was partnered with the statement that “the pace of economic recovery is likely to be more modest in the near term than anticipated.” The mere fact that the Fed acknowledged a slow-down prompted the markets to sell off significantly as investors reacted emotionally to news they were already aware of.

#### Retailers report

Retail sales in the U.S. came out in line with expectations, yet were kept afloat mostly by attractive car incentives over the last month. The return of employee pricing has even allowed a company like GM to emerge from bankruptcy with two profitable quarters in a row. GM has also joined a slew of companies with high cash balances and now sits with US\$33 billion in cash, about three times what it borrowed from the Canadian government. Although autos were positive, other retailers did not pick up the

slack last month, indicating further slowing for an all-important segment of the U.S. economy: consumers. The week of August 16 will see retailers including Wal-Mart, Target, TJX and the Gap rolling out earnings. Analysts will be looking for guidance related to the upcoming back to school season for any reason to be cheery about the second half of the year.

### Trade wars

The U.S. trade deficit hit US\$49.9 billion in June, significantly wider than market expectations. The deterioration in the trade balance reflected a solid \$5.9 billion (3.0%) rise in imports with exports falling by -\$2.0 billion (-1.3%). Normally, such a trend would be viewed as a positive, showing U.S. consumers continue to demand global goods. However, exports are the better driver of employment in the long run. U.S. exporters hoping Chinese consumers would come around will have to demonstrate patience because the Chinese are importing much less these days. China is trying to engineer a slowdown while the U.S. is trying to reflate its slowing economy. This inconsistency is creating a drag on global growth that may need to be solved by U.S. government intervention in the short run.

### Longer View

Global stock markets have rallied significantly since the March 2009 bottom. We have seen a consistent amount of cash flowing back to the capital markets from the sidelines, thus creating solid support for the markets at various key levels. The fact that not every investor is overly optimistic is a catalyst for further growth. However, we believe it is also important to have strategies to lock in recent gains. In the portfolios managed by United Financial, we have been diligently taking profits from our winners and repositioning our portfolios for slower growth.

### Playbook - Market Alert! Weekly Summary

#### August 10:

The U.S. Department of Labor reported that labour productivity for the second quarter declined by 0.9% annualized after seeing an increase of 3.9% in the first quarter. This is the first time output per worker has declined since the last quarter of 2008. Unit labour costs, a gauge of inflation in the economic system, increased slightly at a rate of 0.2%. Both of these results are significantly lower than expected and continue to suggest that the U.S. economy is slowing.

Canada Mortgage and Housing Corporation announced there were 189,200 housing starts in July (seasonally adjusted annualized rate), down from 192,300 in June. This number is above consensus expectations, however.

The U.S. Federal Open Market Committee (FOMC) decided to maintain the target range for the federal funds rate at 0% to 0.25%. The Fed continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an “extended period.”

#### August 12:

The U.S. Labor Department reported that initial jobless insurance claims for the second week of August rose by 2,000 to 484,000. This is the third rise in four weeks and claims remain close to the high point of 490,000 for the year reached in January. The four-week average rose by 14,250 to 473,500. These figures are worse than expected and suggest that employers are still slow to hire.

The Department of Labor also reported that U.S. import prices rose by 0.2% in July after falling by 1.3% in June. Higher oil prices were largely responsible for the increase, yet this figure is still below what analysts were expecting. Export prices rose by 0.2%, higher than the 0.1% expected by analysts.

#### August 13:

The U.S. Commerce Department said retail sales increased by 0.4% in July and that the figure excluding the volatile auto industry was up 0.2%. Gasoline prices and car sales fuelled the increase. These results were below analysts' expectations.

The U.S. Labor Department reported that the consumer price index in July rose 0.3% after falling 0.1% in June. The core inflation index, excluding food and energy, was up 0.1%. Although this removes some of the deflation fear priced into the bond market, the change in prices over the last 12 months is still a tepid 1.2%. These results are in line with expectations.

Statistics Canada reported that major car incentives and higher truck sales were the main contributors as the number of new motor vehicles sold in Canada rose 2.5% in June. Statscan said sales of trucks (minivans, sport-utility vehicles, light and heavy trucks, vans and buses) increased 3.2% to 72,709 in June, while sales of passenger cars increased 1.6% to 57,426. These results are stronger than expected.

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